BANK OF CANADA
BANQUE DU CANADA

Business Outlook Survey

Conducted by the Bank's Regional Offices Results of the Winter 2012–13 Survey | Vol. 9.4 | 14 January 2013

Overview

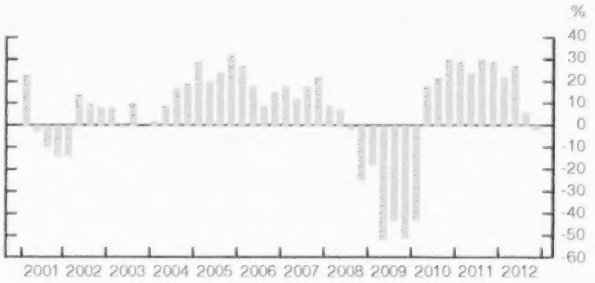
- Responses to the winter survey provide further indications that firms have faced a period of softness in economic conditions. While some forward-looking indicators of business activity have moved up from the levels recorded in the autumn survey, many firms cited concerns about demand over the next 12 months, as well as pressures related to increased competition.
- Firms' internal efforts to generate higher sales growth and improve competitiveness contributed to a rise in the indicators of future sales and investment, while employment intentions were little changed. Overall, uncertainty continued to temper expectations for business activity.
- Fewer firms reported facing capacity pressures or binding labour shortages. Firms expect both input and output prices to increase at about the same pace as over the past 12 months. Inflation expectations were unchanged and are concentrated within the Bank's inflation-control range.
- On balance, firms reported an easing in credit conditions over the past three months.

Business Activity

The balance of opinion on past sales fell to just below zero (**Chart 1**), as more firms reported a recent period of soft sales growth. The balance of opinion on future sales growth moved up after declining in the autumn survey (**Chart 2**), reflecting the efforts of some firms to generate higher sales growth over the next 12 months by pursuing new business opportunities or by adopting strategies to

Chart 1: Citing a recent period of softness, firms report little change in sales growth over the past 12 months

Balance of opinion*
Over the past 12 months, did your firm's sales volume increase at a greater, lesser or the same rate as over the previous 12 months?

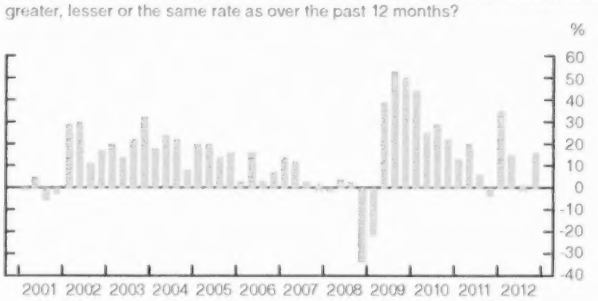


Greater: 33% Same: 32% Lesser: 35% No response: 1%

* Percentage of firms reporting faster growth minus the percentage reporting slower growth

Chart 2: On balance, firms expect higher sales growth over the next 12 months, but many cite concerns about demand and competition

Balance of opinion*
Over the next 12 months, is your firm's sales volume expected to increase at a greater, lesser or the same rate as over the past 12 months?



Greater: 44% Same: 28% Lesser: 28% No response: 1%

* Percentage of firms expecting faster growth minus the percentage expecting slower growth
= Indicates a balance of opinion of zero

The *Business Outlook Survey* summarizes interviews conducted by the Bank's regional offices with the senior management of about 100 firms selected in accordance with the composition of Canada's gross domestic product. The survey's purpose is to gather the perspectives of these businesses on topics of interest to the Bank of Canada (such as demand and capacity pressures) and their forward-looking views on economic activity. Additional information on the survey and its content is available on the Bank of Canada's website. The winter 2012–13 survey was conducted from 19 November to 13 December 2012. The balance of opinion can vary between +100 and -100. Percentages may not add to 100 because of rounding.

The opinions expressed are those of the respondents and do not necessarily reflect the views or policies of the Bank of Canada. The method of sample selection ensures a good cross-section of opinion. Nevertheless, the statistical reliability of the survey is limited, given the small sample size.

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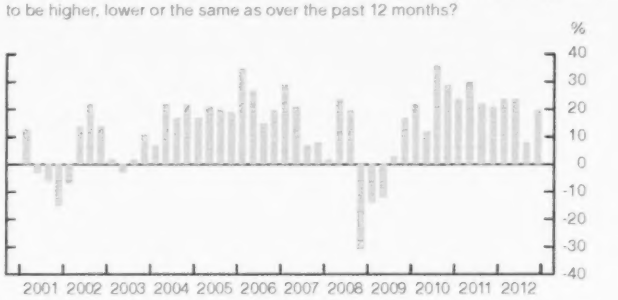
maintain market share in a challenging demand environment. These firms were most often in the manufacturing sector or in Central and Eastern Canada, where a number of firms also reported facing higher-than-desired inventories. Firms tied to commodity-related activity generally foresee little change in the pace of their sales growth from that recorded over the past 12 months. Overall, more firms reported concerns about the outlook for domestic demand, as well as pressures from increased domestic and foreign competition.

The balance of opinion on investment in machinery and equipment moved up after declining in the previous survey (**Chart 3**), and indicates that firms expect to increase investment over the next 12 months. For many businesses, the general focus of investment spending pertains to ways to use existing capital more intensively or to become more competitive. Few firms cited spending plans related to major new projects.

Firms intend to increase employment over the next 12 months (**Chart 4**), although the balance of opinion is essentially unchanged from the autumn survey and remains below the levels observed over the past two years. A number of firms, particularly large firms, reported having sufficient labour to meet expected demand or cited productivity gains from previous investments.

Chart 3: Firms are planning to increase investment spending, although few cite major new projects

Balance of opinion*
Over the next 12 months, is your firm's investment spending on M&E expected to be higher, lower or the same as over the past 12 months?

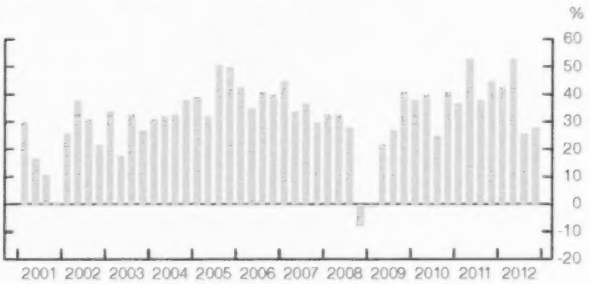


Higher: 43% Same: 35% Lower: 23%

* Percentage of firms expecting higher investment minus the percentage expecting lower investment

Chart 4: Hiring intentions are little changed

Balance of opinion*
Over the next 12 months, is your firm's level of employment expected to be higher, lower or the same as over the past 12 months?



Higher: 42% Same: 45% Lower: 14%

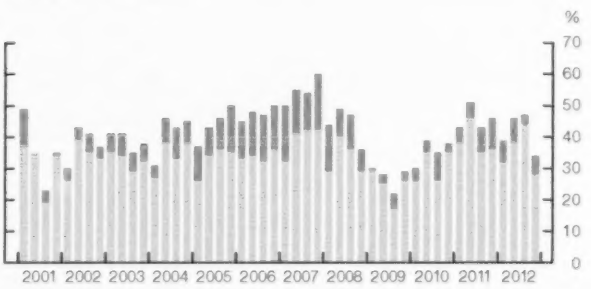
* Percentage of firms expecting higher levels of employment minus the percentage expecting lower levels

Pressures on Production Capacity

The indicator of capacity pressures decreased in the winter survey, with considerably fewer firms reporting that they would have some difficulty meeting an unanticipated increase in demand (**Chart 5**). Capacity pressures were lower in all regions and across most sectors.

Chart 5: Fewer firms report pressures on production capacity...

How would you rate the current ability of your firm to meet an unexpected increase in demand?

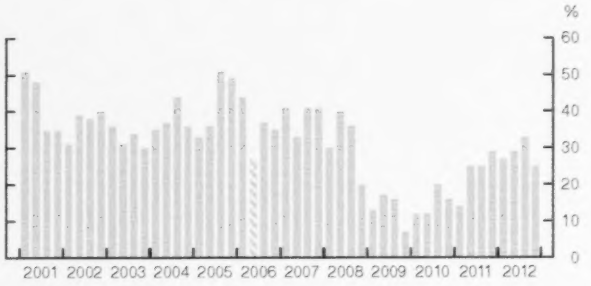


Significant difficulty: 6% Some difficulty: 28%

The percentage of firms reporting that labour shortages are currently restricting their ability to meet demand was also lower in the winter survey (Chart 6), owing to fewer reports of shortages from firms located in Central and Eastern Canada.

Chart 6: ...and fewer report facing binding labour shortages

Does your firm face any shortages of labour that restrict your ability to meet demand?



Yes: 25%

The summer 2006 results are not strictly comparable with those of the other surveys, owing to a difference in the interview process for that survey.

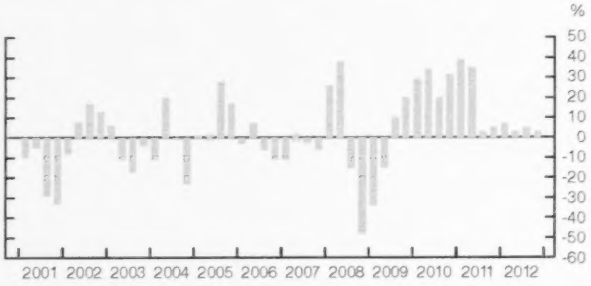
Prices and Inflation

The balance of opinion on input prices remains close to zero (Chart 7), indicating that firms expect about the same rate of increase in input prices over the next 12 months as over the past 12 months.

Chart 7: Firms expect input prices to rise at about the same rate over the next 12 months...

Balance of opinion*

Over the next 12 months, are prices of products/services purchased expected to increase at a greater, lesser or the same rate as over the past 12 months?



Greater: 24% Same: 55% Lesser: 21%

* Percentage of firms expecting greater price increases minus the percentage expecting lesser price increases

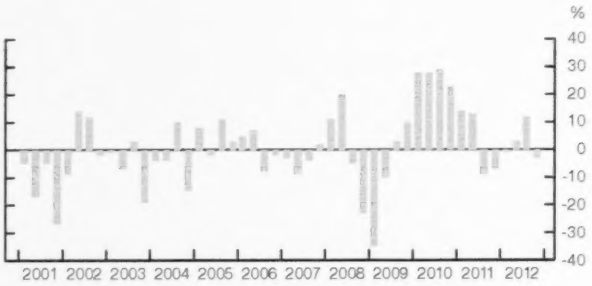
Indicates a balance of opinion of zero

The balance of opinion on output prices is negative, but close to zero, indicating that firms expect output prices to rise at about the same rate as over the past 12 months (Chart 8). Competitive pressures are weighing more heavily on firms' expectations for output prices, notably in the goods sector. Goods-producing firms generally expect output prices to rise at a slower pace over the next 12 months.

Chart 8: ...and also expect little change in output price inflation

Balance of opinion*

Over the next 12 months, are prices of products/services sold expected to increase at a greater, lesser or the same rate as over the past 12 months?



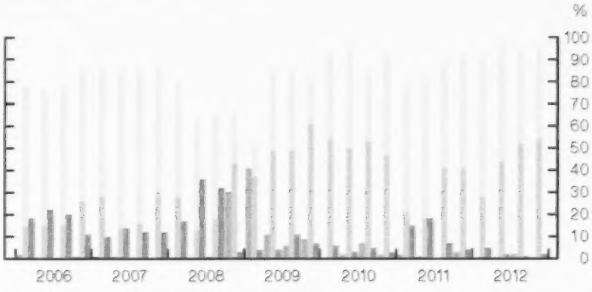
Greater: 22% Same: 52% Lesser: 25% No response: 1%

* Percentage of firms expecting greater price increases minus the percentage expecting lesser price increases

Inflation expectations are little changed from the previous survey (**Chart 9**). The vast majority of firms continue to expect inflation to remain within the Bank's 1 to 3 per cent inflation-control range over the next two years. As in the autumn survey, slightly more than half of the firms surveyed expect inflation to be in the bottom half of that range.

Chart 9: Inflation expectations are concentrated within the Bank's inflation-control range

Over the next two years, what do you expect the annual rate of inflation to be, based on the consumer price index?



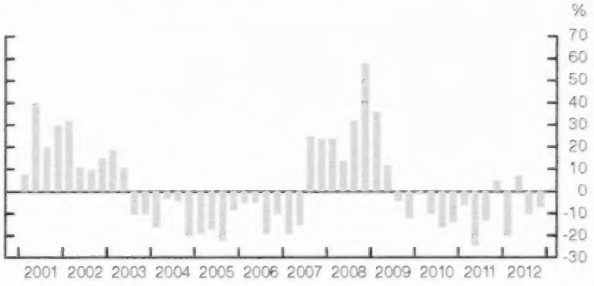
Below 1%: 0% | 1 to 2%: 54% | No response: 2%
2 to 3%: 42% | Above 3%: 2%

Credit Conditions

The balance of opinion on credit conditions remains slightly negative, pointing to an easing over the past three months (**Chart 10**). Although the majority of firms indicated no change in credit conditions over this period, those that did report an easing were mostly large firms.

Chart 10: On balance, firms report that credit conditions eased over the past three months

Balance of opinion*
Over the past three months, how have the terms and conditions for obtaining financing changed (compared with the previous three months)?



Tightened: 12% | Not changed: 69% | Eased: 19%

* Percentage of firms reporting tightened minus the percentage reporting eased. For this question, the balance of opinion excludes firms that responded "not applicable."

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